BRIEF TO THE HOUSE OF COMMONS STANDING COMMITTEE

ON NATIONAL RESOURCES AND PUBLIC WORKS

ON BILL C-4, AN ACT RESPECTING GRANTS TO MUNICIPALITIES, PROVINCES AND OTHER BODIES EXERCISING FUNCTIONS OF LOCAL GOVERNMENT THAT LEVY REAL PROPERTY TAXES

SUBMITTED BY THE FEDERATION OF CANADIAN MUNICIPALITIES

JUNE 19, 1980

For many years, the Federation of Canadian Municipalities has sought urgently-required revisions to the Municipal Grants Act. We are, therefore, pleased to have this opportunity to comment on Bill C-4 (An Act respecting grants to municipalities, provinces and other bodies exercising functions of local government that levy real property taxes).

In 1977, the Federation stated its five principal areas of concern on Bill C-46, a precursor of Bill C-4. These were, as some of you may recall: the discrepancy between the assessed value and the accepted value of property; the problem of properties currently enjoying tax-exempt status; the exemption of properties from commercial or business tax, service deductions from the main grant, and the lack of uniformity in the method by which Crown corporations paid their municipal taxes.

Having examined Bill C-4 carefully, we conclude that the first problem, that of the difference between assessed value and accepted value of properties, remains unsolved. We urge the federal government to rectify this situation by accepting the assessed value of a property as determined by the municipality concerned. Continued failure to do so will result in critical revenue losses for many Canadian municipalities. In 1977, the federal government's failure to accept the City of Ottawa's assessment of $67,688,000 resulted in a loss of $10,400,000 in grants to the city. In 1978-79, the assessed value of federal government properties in Quebec City was $46,467,560, yet grants to the city totalled only $1,249,635. Last year, in the city of Charlottetown, federal government property was assessed and taxed as follows: Commercial property assessment: $7,835,900. Grants in lieu of taxes: $167,688.26. Non-commercial property assessment: $99,400.00. Grants in lieu of taxes: $1,063.58.

Surely if, as in Clause 2(1) of Bill C-4, the Minister of Public Works is responsible for determining the "effective rate" of real property tax, the intent of the legislation is jeopardised in every instance where the effective rate does not relate to the assessed value. Has this committee determined criteria for the definition of "effective rate"?

The position of the Federation of Canadian Municipalities on this point is clear, and has been reiterated on many previous occasions. The federal government and its agencies should pay full taxes on the assessed value of their properties when the taxes fall due, just as every other Canadian taxpayer does. In the case of arrears, obligatory interest should be paid on the overdue amount.

The second problem we have cited, that of federal properties which currently enjoy a tax-exempt status, is partially solved by the provisions of Bill C-4, which expands the categories of taxable properties to include parks, historic sites, museums, galleries and defence bases. We may require additional clarification as to whether specific properties in some municipalities will be covered by the expanded grant criteria, but, in general, we view these amendments as a positive step.

Perhaps the thorniest continuing problem for Canadian municipalities is that of exemption of federal properties from commercial or business tax, a policy which costs the city of Ottawa over $22 million annually. It is apparent from the wording of Bill C-4 that the federal government has no intention of paying business tax on the pretext that it is not applicable to government property since government departments do not carry on a business. (In fact, however, some Crown corporations and government agencies do so, often in direct competition with businesses in the private sector.)

We maintain, in any case, that the business tax is actually a surtax--a charge for additional services provided to buildings in which commercial activities are carried on. There is no difference between office buildings occupied by private businesses and those occupied by government departments. In both cases, the same number and quality of services are required and, consequently, we believe that all such buildings should be subject to the same taxes and surtax.

It may also be timely to note here that, unlike all other taxpayers, the federal government does not pay interest on its arrears. This self-assumed privilege represents an injustice and a hardship for the many municipalities which are forced to bridge the financial gap at high interest rates until belated payments of grants in lieu of taxes are received.

The Federation of Canadian Municipalities notes that, with very few exceptions, Bill C-4 will eliminate federal government deductions for services from the main grant. This is, in our view, a positive change.

Finally, in its earlier submission, the Federation voiced its concern about the lack of uniformity in the method by which Crown corporations pay municipal taxes. Quite simply, we recommend that the Act be amended to apply to Crown agencies without exception, and that the principal of payment of full taxes on these properties be applied.

An example of the current anomalies produced is to be found in the case of the Hamilton Harbour Commission. If the federal government paid full taxes with respect to this property, then based on a realty assessment of $6,562,050, the tax payment would be $1,245,968. Assuming that all of those properties were

occupied for business use, and based on an additional business tax levy of 30%, this would produce an additional $599,723. At present, these properties are tax exempt, and their upkeep costs every citizen of Hamilton two mills. The city of Vancouver, too, has encountered problems by virtue of the fact that National Harbours Board pier improvements are exempted from grants under the Municipal Grants Act. Correction of this situation would give Vancouver more than a million dollars a year in additional grants.

In summary, then, if the federal government is to bring its contributions to municipal property taxes into line and conduct itself like every other taxpayer, Bill C-4 must define taxable and non-taxable properties. We believe that it would be useful, in defining non-taxable holdings, to adopt objective criteria which will, insofar as is possible, limit this class of holding by making it the exception.

To return for a moment to the assessment of federal government properties, the Federation of Canadian Municipalities believes that, logically, such assessment should be undertaken by a recognised body not affiliated with the federal Department of Finance. The body responsible for assessment on behalf of the municipalities under the statutes of each province would be our nominee in each case.

Like all taxpayers, the federal government and its agencies should have the right of appeal against assessment. This right should, however, be exercised in such a manner as to avoid the Minister, who, under the provisions of Bill C-4, has the power to control evaluation, being the sole arbiter in such matters since he is at once judge and litigant. By extension, the federal government must not be placed in a position where it is the sole decision-making authority which arbitrarily determines the value of taxable holdings

and the amount of payment it will provide in lieu of taxes.

Finally, we note with grave concern that the underlying principle of Bill C-4, like that of its legislative predecessors, is that municipalities have no entitlement to grants in lieu of taxes, or to the full payment of taxes, the former being conferred by the Minister on a charitable basis. We submit that this principle must be replaced by one requiring the federal government to conduct itself like every other taxpayer in its dealings with municipalities.

At the Federation's 43rd Annual Conference held in Halifax last week, the following resolution was passed without dissent:

> WHEREAS Bill C-4, an Act concerning grants to municipalities, provinces and other bodies exercising functions of local government that levy real property taxes, would establish uniform regulations throughout Canada for the payment of such grants in lieu of taxes for federal properties;
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> WHEREAS such uniform regulations do not take into account the diversity of provincial and municipal laws, rules and regulations throughout Canada;
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> WHEREAS municipal taxation is an exclusively provincial field of jurisdiction;
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> WHEREAS the Canadian government must, in an authentic federalism, respect the jurisdictional fields of each province and the diversity of legislations that derive from it;
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> BE IT THEREFORE RESOLVED that the Federation of Canadian Municipalities ask the Canadian government to amend Bill C-4 in order that:

- every federal property will be assessed as if it were a taxable property, and that assessment be undertaken by the authorised local or provincial assessment authority according to the laws prevailing in each province;
- grants in lieu of taxes will be calculated on the basis of the tax rates of all municipal and school taxes that would apply if they were taxable;
- the payment of these grants in lieu of municipal taxes will be made in complete accordance with the laws and regulations, provincial and municipal, which exist where such federal property is located;
- the right of each municipality to receive grants in lieu of taxes and not consider their payment as a facultative privilege for the Minister to authorise it be clearly established.

Members of the Committee, this concludes our submission. We thank you for this opportunity to present the Federation's views on this important Bill. Should you wish to direct any questions to us, we will be pleased to respond.

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Ottawa